

**REPORT OF THE AUDIT OF THE  
HARRISON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**  
**HARRISON COUNTY FISCAL COURT**

**For The Fiscal Year Ended**  
**June 30, 2003**

The Auditor of Public Accounts has completed the Harrison County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

Fund balances decreased by \$1,901,360 from the beginning of the year, resulting in a cash surplus of \$1,661,191 as of June 30, 2003. \$1,098,847 of the \$1,901,360 decrease was the result of the expenditures of bond proceeds for the construction of the Justice Center.

**Debt Obligations:**

Total bonded debt principal as of June 30, 2003, was \$5,880,000. Future collections of \$8,894,760 are needed over the next 18 years to pay all bonded debt principal and interest.

Capital lease principal agreement totaled \$127,396 as of June 30, 2003. Future principal and interest payments of \$157,152 are needed to meet this obligation.

**Report Comment:**

- The Fiscal Court Should Obtain Bids For Expenditures When Required

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Dean Peak, Harrison County Judge/Executive  
Members of the Harrison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Harrison County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances - all governmental fund types, the statement of cash receipts, cash disbursements, and changes in cash balances - fiduciary fund type, and the related statement of cash flows - nonexpendable trust fund, for the year then ended. These financial statements are the responsibility of the Harrison County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Harrison County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Harrison County, Kentucky, as of June 30, 2003, and the revenues received and expenditures paid and the cash flows of its nonexpendable trust fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
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Members of the Harrison County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 20, 2004, on our consideration of Harrison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Harrison County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Fiscal Court Should Obtain Bids For Expenditures When Required

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
April 20, 2004



HARRISON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

**Fiscal Court Members:**

Dean Peak	County Judge/Executive
Stanley Lemons	Magistrate
Frankie Taylor	Magistrate
Charles Marshall	Magistrate
Jerry Dawson	Magistrate
Robert Lake	Magistrate
Alexander Barnett	Magistrate
Bill Milner	Magistrate
James Darryl Rainey	Magistrate

**Other Elected Officials:**

Charles W. Kuster, Jr.	County Attorney
Willard L. Turner	Jailer
Linda Furnish	County Clerk
Wanda Marsh	Circuit Court Clerk
Bruce Hampton	Sheriff
Jerry Casey	Property Valuation Administrator
Tom Ware	Coroner

**Appointed Personnel:**

Deborah Martin	County Treasurer
Sherry Judy	Occupational Tax Collector
Judy Cunningham	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

HARRISON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type			Fiduciary Fund Type
	General	Special Revenue	Debt Service	Trust and Agency
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash	\$ 1,116,421	\$ 236,368	\$ 71,699	\$ 237,631
Total Assets	\$ 1,116,421	\$ 236,368	\$ 71,699	\$ 237,631
<u>Other Resources</u>				
Amounts to be Provided in Future Years for:				
Capital Lease	\$ 127,396	\$	\$	\$
Bond Payments			5,875,444	
Total Other Resources	\$ 127,396	\$ 0	\$ 5,875,444	\$ 0
Total Assets and Other Resources	\$ 1,243,817	\$ 236,368	\$ 5,947,143	\$ 237,631

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

Totals  
(Memorandum Only)  
Primary  
Government

\$ 1,662,119

\$ 1,662,119

\$ 127,396  
5,875,444

\$ 6,002,840

\$ 7,664,959

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2003  
 (Continued)

	Governmental Fund Types			Fiduciary Fund Types
	General	Special Revenue	Debt Service	Trust and Agency
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease (Note 5)	\$ 127,396	\$	\$	\$
Bonds:				
Series 2001 (Note 4)			5,880,000	
Total Liabilities	\$ 127,396	\$ 0	\$ 5,880,000	\$ 0
<u>Equity</u>				
Fund Balances:				
Reserved	\$	\$ 236,368	\$ 67,143	\$ 237,631
Unreserved	1,116,421			
Total Equity	\$ 1,116,421	\$ 236,368	\$ 67,143	\$ 237,631
Total Liabilities and Equity	\$ 1,243,817	\$ 236,368	\$ 5,947,143	\$ 237,631

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

Totals  
(Memorandum Only)  
Primary  
Government

\$ 127,396

5,880,000

\$ 6,007,396

\$ 541,142

1,116,421

\$ 1,657,563

\$ 7,664,959

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

HARRISON COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	<u>General Fund Type</u>		
	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Jail Fund</u>
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 2,977,728	\$ 900,107	\$ 58,200
Other Financing Sources:			
Transfers In		992,319	239,000
Kentucky Advance Revenue Program	<u>2,378,100</u>		
Total Cash Receipts	<u>\$ 5,355,828</u>	<u>\$ 1,892,426</u>	<u>\$ 297,200</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,440,085	\$ 1,909,462	\$ 300,715
Other Financing Uses:			
Schedule of Public Properties Corporation Expenditures			
Transfers Out	1,200,604		
Kentucky Advance Revenue Program Repaid	<u>2,378,100</u>		
Total Cash Disbursements	<u>\$ 6,018,789</u>	<u>\$ 1,909,462</u>	<u>\$ 300,715</u>
(Deficiency) of Cash Receipts (Under) Cash Disbursements	\$ (662,961)	\$ (17,036)	\$ (3,515)
Voided Prior Year Outstanding Check	100		
Cash Balance - July 1, 2002	<u>1,656,859</u>	<u>117,935</u>	<u>24,111</u>
Cash Balance - June 30, 2003	<u>\$ 993,998</u>	<u>\$ 100,899</u>	<u>\$ 20,596</u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

<u>Special Revenue Fund Type</u>		<u>Debt Service Fund Type</u>	
<u>Federal Grants Fund</u>	<u>E-911 Fund</u>	<u>Public Properties Corporation</u>	<u>Totals (Memorandum Only)</u>
\$ 51,045	\$ 318,536	\$ 362,069	\$ 4,667,685
2,604			1,233,923
			2,378,100
<u>\$ 53,649</u>	<u>\$ 318,536</u>	<u>\$ 362,069</u>	<u>\$ 8,279,708</u>
\$ 25,615	\$ 419,676	\$	\$ 5,095,553
33,319		1,460,916	1,460,916
			1,233,923
			2,378,100
<u>\$ 58,934</u>	<u>\$ 419,676</u>	<u>\$ 1,460,916</u>	<u>\$ 10,168,492</u>
\$ (5,285)	\$ (101,140)	\$ (1,098,847)	\$ (1,888,784)
53,714	289,079	1,170,546	100
			3,312,244
<u>\$ 48,429</u>	<u>\$ 187,939</u>	<u>\$ 71,699</u>	<u>\$ 1,423,560</u>

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - FIDUCIARY FUND TYPE



HARRISON COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - FIDUCIARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Nonexpendable Trust</u>
<u>Cash Receipts</u>	<u>Shropshire Fund</u>
Receipts	\$ 18,097
Total Cash Receipts	\$ 18,097
 <u>Cash Disbursements</u>	
Expenditures	\$ 30,673
Total Cash Disbursements	\$ 30,673
Deficiency of Cash Receipts Under Cash Disbursements	\$ (12,576)
Cash Balance - July 1, 2002	250,207
Cash Balance - June 30, 2003	\$ 237,631

The accompanying notes are an integral part of the financial statements

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STATEMENT OF CASH FLOWS - NONEXPENDABLE TRUST FUND



HARRISON COUNTY  
STATEMENT OF CASH FLOWS - NONEXPENDABLE TRUST FUND

For The Fiscal Year Ended June 30, 2003

	<u>Shropshire Fund</u>
Cash Flows From Operating Activities:	
Operating Loss	<u>\$ (12,576)</u>
Net Cash Used By Operating Activities	<u>\$ (12,576)</u>
Net Decrease in Cash and Cash Equivalents	\$ (12,576)
Cash and Cash Equivalents - July 1, 2002	<u>250,207</u>
Cash and Cash Equivalents - June 30, 2003	<u><u>\$ 237,631</u></u>

The accompanying notes are an integral part of the financial statements

HARRISON COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Harrison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Harrison County Public Properties Corporation as part of the reporting entity.

Harrison County Public Properties Corporation:

The Harrison County Public Properties Corporation cannot be sued in its own name without recourse to the Harrison County Fiscal Court, which appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as the agency in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

Additional - Harrison County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Harrison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Harrison County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

HARRISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Harrison County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, and Jail Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Harrison County Special Revenue Fund Type includes the following county funds: Federal Grants Fund and the E-911 Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund.

4) Trust and Agency Fund Type

Trust and Agency Fund Type accounts for assets held by a governmental unit in trustee capacity or as agent. The Shropshire Fund is reported as a Trust and Agency Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

HARRISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Harrison County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and payments are being made by the Administrative Office of the Courts to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all highly liquid investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Harrison County has entered into joint ventures with the city of Cynthiaiana for the following enterprises: Cynthiaiana/Harrison County Public Properties Corporation, Cynthiaiana/Harrison County Industrial Authority, and Cynthiaiana/Berry/Harrison County E-911.

HARRISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

HARRISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 4. Long-Term Debt

On February 7, 2001, the Harrison County Public Properties Corporation issued \$6,075,000 in First Mortgage Revenue Bonds, Series 2001, for the purpose of constructing a Justice Center. The bond issue covers a twenty-year period with an annual principal payment due each March 1, beginning March 1, 2003. Interest is payable semi-annually each September 1 and March 1, beginning September 1, 2001. The county subsequently entered into a sub-lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. The total principal balance outstanding was \$5,880,000 as of June 30, 2003. Future principal and interest requirements are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 265,538	\$ 200,000
2005	257,538	210,000
2006	249,138	220,000
2007	240,337	230,000
2008	230,562	240,000
2009-2013	989,697	1,370,000
2014-2018	649,637	1,750,000
2019-2022	<u>204,012</u>	<u>1,660,000</u>
Totals	<u>\$ 3,086,459</u>	<u>\$ 5,880,000</u>



HARRISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Capital Lease

On December 17, 2002, the County entered into a ten-year lease agreement with Kentucky Association of Counties Leasing Trust, in the amount of \$127,396, for the renovation of the Community Service Building. The lease agreement calls for yearly principal payments due in January of each year starting in January 2004 and monthly interest payments starting in February 2003. The county subsequently entered into a sub-lease agreement with the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., which pays the lease payments directly to Kentucky Association of Counties Leasing Trust. The total lease principal balance outstanding was \$127,396 as of June 30, 2003. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 5,383	\$ 11,113
2005	4,890	11,446
2006	4,381	11,790
2007	3,858	12,143
2008	3,319	12,508
2009-2013	7,925	68,396
Totals	\$ 29,756	\$ 127,396

Note 6. Commitments and Contingencies

A. Cynthiana/Harrison County Public Properties Corporation

In June 1995, the Harrison County Fiscal Court (the County) and the City of Cynthiana (the City) formed the Cynthiana/Harrison County Public Properties Corporation (the Corporation) for the acquisition and financing of the Cynthiana/Harrison County Community Service Building project. Upon formation of the Corporation, individual and corporate donations were received and the City received a \$350,000 Community Development Block Grant to construct the community service building. The donations and grant were expected to be approximately \$500,000 short of the anticipated construction costs. The Corporation executed a loan agreement with Farmers National Bank to draw up to \$499,000 in order to complete the project. The rent collected from several community service organizations is used to service the debt. The Corporation is managed by the City, and there has been no audit performed for the Corporation in the past five (5) years. Should the Corporation default on the loan at Farmers National Bank, the County could ultimately be responsible for one-half of the outstanding liabilities. As of June 30, 2003, the outstanding principal balance was \$452,408.

HARRISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 6. Commitments and Contingencies (Continued)

B. Cynthiana/Harrison County Industrial Authority

In January 1999, Harrison County Fiscal Court (the County) adopted a resolution, which obligates the County (in conjunction with the City of Cynthiana's matching offer) to cover fifty percent of any expenses "not covered from net sales proceeds of land by the Cynthiana/Harrison County Industrial Authority" (the Authority). This obligation was made in support of the Authority's project to develop an industrial park in Harrison County. In this resolution, the County also committed "the sum of two hundred fifty thousand (\$250,000) dollars" in order for the Authority to receive an additional one and one-half million (\$1,500,000) dollar federal grant. The County's commitment represents one-half of the matching funds needed (in conjunction with the City's matching offer) for the Authority to receive the additional funding. The Authority obtained an \$800,000 loan for the purchase of the land for the project. As of June 30, 2003, the outstanding principal balance on the loan was \$786,240. As of the audit date, the County has met its initial commitment of two hundred fifty thousand (\$250,000) dollars to the Authority. During the fiscal year ended June 30, 2003, the County contributed thirty-five thousand one hundred nineteen dollars (\$35,119) to offset operating expenses of the Authority.

C. Cynthiana/Berry/Harrison County E-911

In April 1999, Harrison County Fiscal Court (the County) passed an ordinance for "the establishment of an Enhanced 911 Emergency Telephone Service within Cynthiana and Harrison County, Kentucky." An E-911 Advisory Board (the Board) was created with the City of Cynthiana (the City) and the County equally represented on the Board. The City and County subsequently entered into an interlocal agreement which states, in part, "The cost of the E-911 program shall be funded from the receipts from a telephone service surcharge, which has been levied by the County to be collected by the appropriate telephone operating company on each eligible business and residential telephone line operating within Harrison County. The County may fix or change the rate of the telephone surcharge to be applied, but it shall be sufficient to meet the budgetary requirements for the operation of the E-911 program. If at any time moneys collected from the telephone surcharge are insufficient to meet the needs and obligations of the Board for the operation of the E-911 program, the remaining costs must be apportioned evenly (50/50) between the City and the County and immediately forwarded to the Harrison County Treasurer for use by the Board in the operation of the Center." On March 25, 2003, the county amended the E-911 ordinance, increasing the assessment fee from \$2.50 per month for each telephone line within the City and County, to \$4.00 per month for each telephone line within the City and County. As of the audit date, the system had been implemented, and the fee appeared to have covered the operating expenses of the E-911 program.

HARRISON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 6. Commitments and Contingencies (Continued)

D. Cynthiana/Harrison County Real Estate Purchase

In April 2003, Harrison County Fiscal Court (the County) and the City of Cynthiana (the City) entered into an agreement to purchase a tract of land (approximately 120 acres) from Handy Farm, Inc. of Cynthiana, Kentucky. The total consideration for the acreage was six hundred sixty thousand dollars (\$660,000). Based on the agreement between the City and County each party is responsible for half the purchase price. The County paid twenty-five thousand dollars (\$25,000) for the option to purchase the land, and an additional two hundred thirty-five thousand dollars (\$235,000) the day of closing. The terms of the purchase agreement call for an additional "four hundred thousand dollars (\$400,000) without interest thereon until the date of maturity, payable as hereinafter set out: This note to be paid in equal yearly installments of one hundred thousand dollars (\$100,000) each commencing one (1) year from the date hereof on the anniversary date hereof and continuing on the same date each year thereafter until paid in full." The purpose of this real estate purchase is to establish a public park for the citizens of Harrison County and Cynthiana.

Note 7. Related Party Transactions

In April 2003, Harrison County Fiscal Court and the City of Cynthiana entered into an agreement to purchase a tract of land (approximately 120 acres) from Handy Farm, Inc. of Cynthiana, Kentucky. The total consideration for the acreage was six hundred sixty thousand dollars (\$660,000) (See Note 6 D). Charles Marshall, a magistrate of the Harrison County Fiscal Court, was part owner of the Handy Farm. On April 15, 2004, the Harrison County Ethics Committee reviewed this purchase and found no ethical violations in the matter.

Note 8. Insurance

For the fiscal year ended June 30, 2003, Harrison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



HARRISON COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,299,519	\$ 2,977,728	\$ 678,209
Road and Bridge Fund	2,019,655	900,107	(1,119,548)
Jail Fund	442,780	58,200	(384,580)
<u>Special Revenue Fund Type</u>			
Federal Grants Fund	144,006	51,045	(92,961)
E-911 Fund	290,000	318,536	28,536
<u>Trust and Agency Fund Types</u>			
Shropshire Fund	<u>23,000</u>	<u>18,097</u>	<u>(4,903)</u>
Totals	<u>\$ 5,218,960</u>	<u>\$ 4,323,713</u>	<u>\$ (895,247)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 5,218,960
Add: Budgeted Prior Year Surplus			<u>1,930,905</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 7,149,865</u>

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SCHEDULE OF OPERATING REVENUE



HARRISON COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE	Totals (Memorandum Only)
	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type	Trust and Agency Fund Type	
Taxes	\$ 2,323,308	\$ 261,530	\$	\$	\$ 2,584,838
In Lieu Tax Payments	4,214				4,214
Excess Fees	45,426				45,426
Licenses and Permits	1,313				1,313
Intergovernmental Revenues	1,410,239	101,136	332,419		1,843,794
Charges for Services	4,998				4,998
Miscellaneous Revenues	96,919	1,157	24,684	11,264	134,024
Interest Earned	49,618	5,758	4,966	6,833	67,175
Total Operating Revenue	<u>\$ 3,936,035</u>	<u>\$ 369,581</u>	<u>\$ 362,069</u>	<u>\$ 18,097</u>	<u>\$ 4,685,782</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



HARRISON COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,173,968	\$ 1,050,759	\$ 123,209
Protection to Persons and Property	786,136	574,211	211,925
General Health and Sanitation	230,995	217,806	13,189
Social Services	124,123	83,884	40,239
Recreation and Culture	413,600	343,887	69,713
Roads	1,752,862	1,592,747	160,115
Airports	10,000	10,000	
Bus Service	14,750	13,411	1,339
Other Transportaion Services	2,000	2,000	
Capital Projects	1,279,700	326,348	953,352
Administration	593,820	435,209	158,611
<b>TOTAL BUDGET - GENERAL FUND TYPE</b>	<u><u>\$ 6,381,954</u></u>	<u><u>\$ 4,650,262</u></u>	<u><u>\$ 1,731,692</u></u>

HARRISON COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 121,200	\$ 2,604	\$ 118,596
Protection to Persons and Property	538,000	417,901	120,099
Social Services	22,391	22,390	1
Capital Projects	29,905		29,905
Administration	22,415	2,396	20,019
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 733,911</u>	<u>\$ 445,291</u>	<u>\$ 288,620</u>

TRUST AND AGENCY FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Health and Sanitation	\$ 34,000	\$ 30,673	\$ 3,327
TOTAL BUDGET - TRUST AND AGENCY FUND TYPE	<u>\$ 34,000</u>	<u>\$ 30,673</u>	<u>\$ 3,327</u>



SCHEDULE OF PUBLIC PROPERTIES CORPORATION EXPENDITURES



HARRISON COUNTY  
SCHEDULE OF PUBLIC PROPERTIES CORPORATION EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>Expenditure Items</u>	<u>Public Properties Corporation</u>
Construction Costs	\$ 991,828
Principal Paid on Bonds	195,000
Interest Paid on Bonds	273,338
Fees	<u>750</u>
Totals	<u><u>\$ 1,460,916</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Peak, Harrison County Judge/Executive  
Members of the Harrison County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Harrison County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Harrison County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation.

- The Fiscal Court Should Obtain Bids For Expenditures When Required

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harrison County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
April 20, 2004



COMMENT AND RECOMMENDATION



HARRISON COUNTY  
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2003

REPORTABLE CONDITIONS

None

NONCOMPLIANCES

The Fiscal Court Should Obtain Bids For Expenditures When Required

During the course of our engagement, we conducted tests of expenditures. Our tests of expenditures included a detailed examination of sixteen (16) transactions that required the fiscal court to obtain bids. Of the 16 transactions tested where bids were required, our testing revealed three (3) instances in which the County could not locate documentation indicating the required bids were obtained. KRS 424.260 states, in part, “no city, county, or district... may make a contract, lease, or other agreement for materials, supplies...equipment, or for contractual services other than professional services, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids.” We recommend the fiscal court comply with the provisions of KRS 424.260 by obtaining bids as required.

*County Judge/Executive Dean Peak's Response:*

*In the future we will obtain bids or declare an emergency situation and keep all documentation as required by law.*

PRIOR YEAR FINDINGS

None

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